

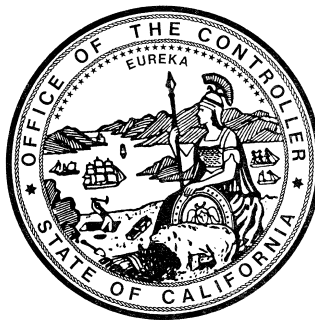
# **LOS ANGELES UNIFIED SCHOOL DISTRICT**

Audit Report

## **REMOVAL OF CHEMICALS PROGRAM**

Chapter 1107, Statutes of 1984

*July 1, 1999, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

March 2005



**STEVE WESTLY**  
**California State Controller**

March 9, 2005

Roy Romer, Superintendent  
Los Angeles Unified School District  
333 South Beaudry Avenue 24th Floor  
Los Angeles, CA 90017

Dear Mr. Romer:

The State Controller's Office audited the claims filed by the Los Angeles Unified School District for costs of the legislatively mandated Removal of Chemicals Program (Chapter 1107, Statutes of 1984) for the period of July 1, 1999, through June 30, 2002.

The district claimed \$1,241,237 for the mandated program. Our audit disclosed that \$5,481 is allowable and \$1,235,756 is unallowable. The unallowable costs occurred because the district claimed unsupported costs. The State paid the district \$988,714. The district should return \$983,233 to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original Signed By:*

VINCENT P. BROWN  
Chief Operating Officer

VPB:JVB/ams

cc: (See page 2)

cc: Kenneth C. Gotsch  
Chief Financial Officer  
Los Angeles Unified School District  
Richard Knott, Controller  
Los Angeles Unified School District  
Darline P. Robles, Ph.D., Superintendent  
Los Angeles County Office of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education  
Arlene Matsuura, Education Fiscal Services Consultant  
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California Department of Education  
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Jeannie Oropeza, Program Budget Manager  
Education Systems Unit  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the claims filed by the Los Angeles Unified School District for costs of the legislatively mandated Removal of Chemicals Program (Chapter 1107, Statutes of 1984) for the period of July 1, 1999, through June 30, 2002. The last day of fieldwork was April 15, 2004.

The district claimed \$1,241,237 for the mandated program. The audit disclosed that \$5,481 is allowable and \$1,235,756 is unallowable. The unallowable costs occurred because the district claimed unsupported costs. The State paid the district \$988,714. The district should return \$983,233 to the State.

## Background

Chapter 1107, Statutes of 1984, added and amended *Education Code* Section 49411 by requiring the Superintendent of Public Instruction to develop guidelines for the regular removal and disposal of all chemicals whose estimated shelf life has elapsed. Additionally, the legislation requires each school district to certify whether the district is in compliance with the guidelines.

On July 28, 1988, the Commission on State Mandates (COSM) determined that Chapter 1107, Statutes of 1984, imposed a state mandate upon school districts and county offices of education reimbursable under *Government Code* Section 17561.

*Parameters and Guidelines*, adopted by COSM on October 26, 1989, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement in assisting local agencies and school districts in claiming reimbursable costs.

## Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Removal of Chemicals Program for the period of July 1, 1999, through June 30, 2002.

The audit scope included, but was not limited to, determining whether costs claimed were supported with appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, the auditor examined transactions to determine whether the costs claimed were supported.

Our review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the district declined our request.

## Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Los Angeles Unified School District claimed \$1,241,237 for Removal of Chemicals Program costs. The audit disclosed that \$5,481 is allowable and \$1,235,756 is unallowable.

For fiscal year (FY) 1999-2000, the State paid the district \$467,746. The audit disclosed that \$1,501 is allowable. The district should return \$466,245 to the State.

For FY 2000-01, the State paid the district \$260,484. The audit disclosed that \$3,980 is allowable. The district should return \$256,504 to the State.

For FY 2001-02, the State paid the district \$260,484. The audit disclosed that none of the costs claimed is allowable. The district should return the total amount to the State.

## Views of Responsible Official

We issued a draft report on August 13, 2004. The district responded by letter dated October 18, 2004, disagreeing with our audit results. The final report includes the district's response as the Attachment.

## Restricted Use

This report is solely for the information and use of the Los Angeles Unified School District, the Los Angeles County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

# Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2002

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference <sup>1</sup></u>
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$ 339,219	\$ —	\$ (339,219)	Finding 1
Materials and supplies	1,432	1,432	—	
Contracted services	110,710	—	(110,710)	Finding 2
Total direct costs	451,361	1,432	(449,929)	
Indirect costs	16,385	69	(16,316)	Finding 1
Total costs	<u>\$ 467,746</u>	1,501	<u>\$ (466,245)</u>	
Less amount paid by the State		(467,746)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (466,245)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 246,118	\$ —	\$ (246,118)	Finding 1
Materials and supplies	3,819	3,819	—	
Contracted services	—	—	—	
Total direct costs	249,937	3,819	(246,118)	
Indirect costs	10,547	161	(10,386)	Finding 1
Total costs	<u>\$ 260,484</u>	3,980	<u>\$ (256,504)</u>	
Less amount paid by the State		(260,484)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (256,504)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 402,369	\$ —	\$ (402,369)	Finding 1
Materials and supplies	—	—	—	
Contracted services	93,578	—	(93,578)	Finding 2
Total direct costs	495,947	—	(495,947)	
Indirect costs	17,060	—	(17,060)	Finding 1
Total costs	<u>\$ 513,007</u>	—	<u>\$ (513,007)</u>	
Less amount paid by the State		(260,484)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (260,484)</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>Summary: July 1, 1999, through June 30, 2002</u>				
Salaries and benefits	\$ 987,706	\$ —	\$ (987,706)	Finding 1
Materials and supplies	5,251	5,251	—	
Contracted services	204,288	—	(204,288)	Finding 2
Total direct costs	1,197,245	5,251	(1,191,994)	
Indirect costs	43,992	230	(43,762)	Finding 1
Total costs	<u>\$ 1,241,237</u>	5,481	<u>\$(1,235,756)</u>	
Less amount paid by the State		(988,714)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (983,233)</u>		

<sup>1</sup> See the Findings and Recommendations section.



# Findings and Recommendations

## **FINDING 1— Unsupported salary, benefit, stipend, and related indirect costs**

The district claimed \$987,706 of unsupported salary, benefit, and stipend costs for the audit period. The related indirect cost totals \$43,762.

Unsupported salary, benefit, stipend, and related indirect costs are summarized as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Salaries and benefits	\$ 181,849	\$ 125,479	\$ 248,640	\$ 555,968
Stipends	157,370	120,639	153,729	431,738
Subtotals	339,219	246,118	402,369	987,706
Indirect costs	16,316	10,386	17,060	43,762
Total unsupported costs	<u>\$ 355,535</u>	<u>\$ 256,504</u>	<u>\$ 419,429</u>	<u>\$1,031,468</u>

### **Salaries and Benefits**

The district claimed \$555,968 of unsupported salary and benefit costs for various classified and certificated staff. The following unsupported costs were claimed:

- For FY 1999-2000, the district claimed \$181,849 for 12 classified employees for initial chemical profile, removal, and disposal.
- For FY 2000-01, the district claimed \$120,606 for 19 classified employees for initial chemical profile, inventory, removal, and disposal. In addition, the district claimed \$4,873 (\$4,265 for certificated staff and \$608 for classified staff) for attending a Flynn Seminar.
- For FY 2001-02, the district claimed \$248,640 for 21 classified employees for initial chemical profile and inventory.

The district based the claimed costs on estimates or year-end declarations. On various occasions the district was asked to corroborate hours shown on the activity logs and the declarations. However, the district did not provide any further support. Our review of the activity logs and declarations revealed the following:

- The district provided activity logs for an employee that showed time spent each day. However, the logs were signed and dated after or before the time an activity took place. For example, the activity log submitted for hours charged from April 1, 2000, through June 30, 2000, was signed and dated January 9, 2001. In another case, an activity log submitted for July 7, 2000, through December 28, 2000, was signed and dated in advance on February 13, 2000.
- The district provided year-end declarations to substantiate hours claimed. Most of the declarations contained hours for multiple district staff. The logs and declarations were prepared by the district's consultant and forwarded to the district for review and signature.

- For another employee, the district provided employees' monthly calendars to substantiate hours and mandate activities. The calendars revealed that individuals spent time performing various mandate and non-mandate activities, yet the entire time was claimed. The district did not provide records to substantiate time spent on the mandate activities.
- The Flynn Seminar took place outside the regular work hours of the district's classified and certificated staff. The staff members were not compensated for attending the seminar.

For the entire audit period, the claimed salary and benefit costs also included \$23,262 for classified employees for preparing Chemical Hygiene and Safety Plans (CHSP) and attending Chemical Safety Coordinators (CSC) meetings. The district did not provide records to substantiate the mandate-related costs.

### **Stipends**

The district claimed the entire stipends paid to the CSC, totaling \$431,738. A portion of claimed costs may be mandate-related. However, the district did not provide documentation to substantiate the allowable portion.

Based on our review of the district's School Laboratory CHSP and the superintendent's memorandum dated October 16, 2000 (Memorandum Q-5), the CSCs are responsible for the following functions.

- Ensure that employees receive appropriate health and safety training upon assignment to work area where chemicals/hazardous materials are present and prior to assignments involving new or different exposure situations.
- Ensure that employees have access to the CHSP and other reference materials (e.g., Material Safety and Data Sheets).
- Ensure that employees adhere to safe work procedures as prescribed in the CHSP.
- Ensure that health and safety inspections are performed and appropriate records are maintained.
- Ensure that the school is in compliance with current legal requirements concerning chemicals/hazardous materials and ensure that the school CHSP is in accordance with those requirements.

*Parameters and Guidelines* for the mandated program specifies that only actual increased costs incurred in the performance of the mandated activity and supported by appropriate documentation are reimbursable.

*Parameters and Guidelines* states that all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

### Recommendation

We recommend the district establish procedures to ensure that all claimed costs are properly supported. Documentation should identify the mandated functions performed and the actual number of hours devoted to each function.

### District's Response

The District does not concur with the conclusions of this finding. In regards to unsupported salaries, the District provided declarations for 12 classified employees in 1999/00 and 19 classified employees in 2000/01 to certify the work performed by these individuals. As known to the SCO, the Parameters and Guidelines do not prohibit the use of declarations in regards to validating the conduct of mandate activities. After an initial review of the Chemical Hygiene and Safety Plan, the SCO summarized the breadth of their findings and did not pursue other data requests which could provide additional clarification. Much of the information is contained in the Hazardous Materials and Waste Management Manual and was never reviewed by the SCO auditors, nor was the Superintendent's memorandum dated October 16, 2000 which further delineated the Chemical Safety Coordinators' (CSC) responsibilities clearly enough to be deem them eligible for mandated cost reimbursement. The Superintendent's memorandum clearly outlined the activities, which is a consistent with reimbursable activities and for which a stipend is paid to employees.

With regards to the stipends for CSC, the District paid an average of \$1,183 per CSC. Although the duties associated with payment of the stipend do not specifically state the CSC's responsibility for conducting chemical inventories in compliance with the mandate, these functions are performed under the component that states, "Ensure that the school is in compliance with current legal requirements concerning chemicals/hazardous materials and ensure that the school CHSP is in accordance with those requirements." Additionally, the District has provided copies of the chemical inventories completed in order to comply with the mandate. (This issue will be further addressed below.) In the DAR [draft audit report], the SCO states, "A portion of claimed costs may be mandate-related. However, the District did not provide documentation to substantiate the allowable portion." Since the District has evidence that the inventories were completed, it should be reasonable to conclude that the activities did in fact take place, and therefore the District is entitled to some level of reimbursement for these costs. In response to the SCO's specific finding concerning the CSC's activities, the District would be open to considering alternative methods that would be acceptable to the SCO.

Although the P&G's allow for a time study, the SCO has yet to validate a method to conduct one. Without an approved methodology to allocate labor activities, which can produce actual costs for the various mandates, the District would once again be vulnerable to flawed audit practices. Given an approved time study format, the District would be able to claim costs on this program that are acceptable to all parties involved. We believe the SCO's office has an obligation to establish such a methodology. In absence of such, the District believes employee declarations to be an acceptable method of documentation.

Given the employee declarations, the invoices that displayed evidence of the removal of chemicals, and the SCO's acknowledgement (during a meeting between District staff and SCO personnel) that mandated reimbursable activities must have taken place in order for chemicals to have been removed from District sites, the District believes the DAR to be an example of the capricious and arbitrary actions of the SCO in reviewing these claims and thus strongly disagrees with the findings of the SCO.

#### SCO's Comment

The fiscal effect of the finding and recommendation remains unchanged. We agree that reimbursable activities did occur; however, the district did not support the costs it incurred.

*Parameters and Guidelines* does not make reference to declarations or the use of time studies to support actual costs. *Parameters and Guidelines* requires that a fiscal year's actual costs be included in each claim and that all costs claimed be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

For salary and benefit costs, the district provided estimates or year-end declarations in support of claimed costs rather than documentation supporting actual costs.

For stipends, the district claimed 100% of stipends paid to CSC without determining the mandate-related portion. During the audit, the auditors obtained information from the district on the function of the CSC and reviewed the superintendent's Memorandum Q-5. (The finding section has been updated to summarize Memorandum Q-5.) The reimbursable function of the CSC relates to removal and disposal of chemicals whose shelf life has elapsed (reached retrogradable conditions). Only a portion of the CSC function is reimbursable under this mandate.

The district is responsible for documenting and supporting mandate-related costs. Without time records, the reimbursable mandate portion is uncertain. Since mandate activities are not tasks repetitive in nature, the application of a time study of sampled periods is not appropriate. The district may be able to maintain time records of individuals performing mandate-related activities to support actual costs in the current fiscal year and apply the results to the audit period. However, to do so, the district would have to support a correlation between time spent in the current period with time spent during the audit period.

#### **FINDING 2— Unsupported contract service costs**

The district claimed unsupported contract service costs of \$204,288 for FY 1999-2000 and FY 2001-02. The district did not claim contract service costs for FY 2000-01. Costs claimed are unallowable due to the following:

- For FY 1999-2000, the district claimed \$110,710 in contract service costs. The district determined that 29% of the contract costs were related to the mandate. Accordingly, the district claimed 29% of the

entire contract service costs of \$381,759. Our review of the district's methodology revealed the following:

1. The individual invoices from the district's waste removal contractor revealed that various invoices totaling \$140,944 included costs for removal of non-mandated chemicals and wastes. For example, invoices WI 44934 and CT0245 were for soil test and soil removal. The district claimed 29% of these ineligible costs. In addition, the district claimed \$26,827 of invoices for prior-year mandate and non-mandated activities. Thus, the contract service costs claimed for FY 1999-2000 are overstated.
2. The district's method for calculating the 29% factor is not reasonable. The waste removal contractor charged the district a specified amount based on the content of chemical barrels picked up. Instead of actual quantities, the district calculated the percentage by line items or number of containers listed on the pick-up request forms. The district requested each of the school sites to declare on its pick-up request form the hazardous materials/waste to be picked up during the fiscal year. The sites applied different measurement identifiers for each product to be removed. For example, the district would measure a waste product by case, while in other instances it would measure another waste product by gallons. To determine the allocation factor, the district added by line item the number of mandated and non-mandated chemicals. The district divided the number of mandated chemicals to be removed by total chemicals to arrive at the percentage.

We reviewed the 202 pick-up request forms provided by the individual school sites. Only 30 sites identified individual products and their measurement (i.e., pounds, gallons, ounces, liters, etc.). The district had not maintained any records to identify actual volumes and removal costs of mandated and non-mandated chemicals. The contract service invoices did not separately identify removal and disposal costs of solid, liquid, and gaseous products. To determine if the percentage allocable to the mandate was reasonable for the 30 sites that had identified the product and measurements, we converted the units to like quantity measurements and recalculated the percentage applicable to the mandate. Our review revealed that 3.96% of the removal costs related to the mandate. The 3.96% allocation factor does not reflect the actual removal and disposal costs of the mandate-related solid, liquid, and gaseous products. However, since no other records are available, the recalculated percentage more closely approximates the actual percentage of costs applicable to the mandate. Thus, the 29% factor determined by the district appears excessive.

- For FY 2001-02, the district claimed \$93,578. To support its claim, the district provided invoices totaling \$145,791. Of these, the district estimated \$93,578 was related to the mandate. However, the district did not provide records to corroborate the estimated costs claimed. Furthermore, the district did not identify the invoices and the costs related to the mandate.

*Parameters and Guidelines* for the mandated program specifies that only actual increased costs incurred in the performance of the mandated activity for one fiscal year and supported by appropriate documentation are reimbursable.

#### Recommendation

We recommend the district establish procedures to ensure that all claimed costs are properly supported. Documentation should identify the mandated functions and costs devoted to each function.

#### District's Response

The disallowed costs associated with this DAR are as follows: \$110,710 for FY 1999-2000 and \$93,578 for FY 2001-2002. Following the SCO's suggestions, the District has recalculated the costs associated with this reimbursement component. The District has recalculated these costs and thus, the District respectfully requests that the SCO evaluate the information provided by the District and consider this information relative to this finding. The support documentation for the recalculated amount will be forwarded to the SCO under a separate cover.

The District is now requiring the contractor to detail the segregation for claimable wastes from non-claimable wastes, resulting in the clear delineation of the charges. The District acknowledges that during the 1999/00 period, the invoices did not clearly reflect the contracted fixed-fee price agreed to by the District and the vendor. Thereafter, the contractor has provided the sufficient detail necessary to reconcile the fixed fee charges to claimable science lab chemicals over other non-claimable waste streams. Thus, the District requests that the SCO revisit the claim in good faith and allow for the appropriate reimbursement as opposed to the disallowance of the entire claim.

#### SCO's Comment

The finding and recommendation remain unchanged. The district provided a schedule of recalculated contract services costs for FY 1999-2000, showing that \$58,622 (rather than \$110,710 it claimed) of contract services costs was related to the mandate.

Our review disclosed that \$58,622 is unallowable. Invoices totaling \$31,134 were for removal of mandate-related and non-mandate-related chemicals (\$14,962 during the audit period and \$16,172 prior to July 1, 1999). Invoices totaling \$27,488 were for disposing commingled mandate-related and non-mandate-related chemicals. Neither the district nor its consultant provided documentation to substantiate the mandate-related removal costs. Therefore, the entire cost is unallowable.

The district did not respond regarding unallowable contract services costs of \$93,578 for FY 2001-02.

**OTHER ISSUES**

The district's response also addressed the following issues. The SCO's comments immediately follow the district's response to each issue.

**Auditing Standards and Procedures**District's Response

The DAR states that the audit was conducted in accordance with Government Auditing Standards issued by the Controller General of the United States. With regard to the report of audit findings, section 8.13 of those standards provides:

Auditors should report findings by providing credible evidence that relates to the audit objectives. These findings should be supported by sufficient, competent, and relevant evidence. They also should be presented in a manner to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper perspective.

Further, the DAR states that the audit's scope "was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement."

The District respectfully submits that the DAR does not satisfy the guidelines of section 8.13. The DAR, in essence, finds that the District has not met the "reasonable assurance" standard. However, the DAR does not provide "sufficient, competent or relevant evidence" to support such findings. Instead, the DAR findings are stated in definitive fashion without explanation, evidence or rationale. The SCO has not provided the District with adequate notice or guidance regarding the type or level of support it must demonstrate to satisfy the SCO's "reasonable assurance" standard.

SCO's Comment

This audit was performed in accordance with *Government Auditing Standards* using criteria identified in the *Parameters and Guidelines*. The finding explains the basis for unallowable costs.

**Claim Guidelines and Standards**District's Response

Since the inception of this mandate, the SCO has failed or refused to provide the District with adequate guidelines regarding the manner in which increased costs should be calculated and documented. In the absence of such guidance, the District has made reasonable and good faith efforts to calculate and document its increased costs. The SCO has for years accepted without objection the District's methodology and documentation. The SCO may not now arbitrarily reject the District's claims while still failing to provide adequate guidance as to an acceptable methodology.

SCO's Comment

*Parameters and Guidelines* defines the criteria for allowable costs. Our auditors discussed and documented the basis for the unallowable costs with district representatives throughout the audit and in the finding section of this report. The lack of an SCO audit in prior years does not justify the acceptance of all costs claimed for the audit period. The district is responsible for supporting costs claimed.

**Attachment—  
District's Response to  
Draft Audit Report**

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## LOS ANGELES UNIFIED SCHOOL DISTRICT

### Office of the Controller

Revenue Enhancement Unit  
333 S. Beaudry Ave. 26<sup>th</sup> Floor  
Los Angeles, CA 90017  
Telephone: (213) 241-7990 Fax: (213) 241-6818

**Roy Romer**  
Superintendent of Schools

**Kenneth C. Gotsch**  
Chief Financial Officer

**Richard J. Knott**  
Controller

**Ruben J. Rojas**  
Director, Revenue Enhancement

October 18, 2004

By U.S. Mail & Fax; (916) 327-0832

Jim Spano, Chief  
Compliance Audit Bureau  
State Controllers Office  
Division of Audits  
PO Box 942850  
Sacramento, CA 94250

Re: RESPONSE TO REMOVAL OF CHEMICALS, FY's 1999-2000 through 2001-2002

Dear Mr. Spano:

This letter is the Los Angeles Unified School District's ("District") response to the SCO's (SCO) draft audit report ("DAR"), dated August 13, 2004, concerning the District's July 1999 through June 2002 Removal of Chemicals Program mandated costs claims ("the Audited Claims").

As discussed more fully below, the District does not believe that the DAR adequately sets forth the legal or factual basis of the SCO's denial of the Audited Claims. The District has made a Public Records Act request for the SCO's working audit file to obtain more detail and understanding concerning the SCO's methodology, findings, and conclusions. The District reserves the right to amend or supplement this response upon receipt and review of that file and specifically communicates hereby its intention to do so within a reasonable time after receipt and review of such file.

The audit report shows a combined disallowance of \$1,235,756 out of a total combined claimed of \$1,241,237. The disallowances are broken down as follows:

	Total Salaries	Materials	Contract	Indirect	Total	
FY	& Benefits	& Supplies	Service	Cost	Claim	Disallowed
99-00	\$339,219.00	\$1,432.00	\$110,710.00	\$16,385.00	\$467,746.00	\$466,245.00
00-01	\$246,118.00	\$3,819.00	\$0.00	\$10,547.00	\$260,484.00	\$256,504.00
01-02	\$402,369.00	\$0.00	\$93,578.00	\$17,060.00	\$513,007.00	\$513,007.00
	\$987,706.00	\$5,251.00	\$204,288.00	\$43,992.00	\$1,241,237.00	\$1,235,756.00

## **AUDIT STANDARDS AND PROCEDURES**

The DAR states that the audit was conducted in accordance with Government Auditing Standards issued by the Controller General of the United States. With regard to the report of audit findings, section 8.13 of those standards provides:

Auditors should report findings by providing credible evidence that relates to the audit objectives. These findings should be supported by sufficient, competent, and relevant evidence. They also should be presented in a manner to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper perspective.

Further, the DAR states that the audit's scope "was limited to planning and performing audit procedures necessary to obtain **reasonable assurance** concerning the allowability of expenditures claimed for reimbursement."

The District respectfully submits that the DAR does not satisfy the guidelines of section 8.13. The DAR, in essence, finds that the District has not met the "reasonable assurance" standard. However, the DAR does not provide "sufficient, competent or relevant evidence" to support such findings. Instead, the DAR findings are stated in definitive fashion without explanation, evidence or rationale. The SCO has not provided the District with adequate notice or guidance regarding the type or level of support it must demonstrate to satisfy the SCO's "reasonable assurance" standard.

## **CLAIM GUIDELINES AND STANDARDS**

Since the inception of this mandate, the SCO has failed or refused to provide the District with adequate guidelines regarding the manner in which increased costs should be calculated and documented. In the absence of such guidance, the District has made reasonable and good faith efforts to calculate and document its increased costs. The SCO has for years accepted without objection the District's methodology and documentation. The SCO may not now arbitrarily reject the District's claims while still failing to provide adequate guidance as to an acceptable methodology.

### **Finding 1: Unsupported salary, benefit, stipend and related indirect costs.**

The District does not concur with the conclusions of this finding. In regards to unsupported salaries, the District provided declarations for 12 classified employees in 1999/00 and 19 classified employees in 2000/01 to certify the work performed by these individuals. As known to the SCO, the Parameters and Guidelines do not prohibit the use of declarations in regards to validating the conduct of mandate activities. After an initial review of the Chemical Hygiene and Safety Plan, the SCO summarized the breadth of their findings and did not pursue other data requests which could provide additional clarification. Much of the information is contained in the Hazardous Materials and Waste Management Manual and was never reviewed by the SCO auditors, nor was the Superintendent's memorandum dated October 16, 2000 which further delineated the Chemical Safety Coordinators' (CSC) responsibilities clearly enough to be deem them eligible for mandated cost reimbursement. The Superintendent's memorandum clearly outlined the activities, which is a consistent with reimbursable activities and for which a stipend is paid to employees.

With regards to the stipends for CSC, the District paid an average of \$1,183 per CSC. Although the duties associated with payment of the stipend do not specifically state the CSC's responsibility for conducting chemical inventories in compliance with the mandate, these functions are performed under the component that states, "Ensure that the school is in compliance with current legal requirements concerning chemicals/hazardous materials and ensure that the school CHSP is in accordance with those requirements." Additionally, the District has provided copies of the chemical inventories completed in order to comply with the mandate. (This issue will be further addressed below.) In the DAR, the SCO states, "A portion of claimed costs may be mandate-related. However, the District did not provide documentation to substantiate the allowable portion." Since the District has evidence that the inventories were completed, it should be reasonable to conclude that the activities did in fact take place, and therefore the District is entitled to some level of reimbursement for these costs. In response to the SCO's specific



finding concerning the CSC's activities, the District would be open to considering alternative methods that would be acceptable to the SCO.

Although the P&G's allow for a time study, the SCO has yet to validate a method to conduct one. Without an approved methodology to allocate labor activities, which can produce actual costs for the various mandates, the District would once again be vulnerable to flawed audit practices. Given an approved time study format, the District would be able to claim costs on this program that are acceptable to all parties involved. We believe the SCO's office has an obligation to establish such a methodology. In absence of such, the District believes employee declarations to be an acceptable method of documentation.

Given the employee declarations, the invoices that displayed evidence of the removal of chemicals, and the SCO's acknowledgement (during a meeting between District staff and SCO personnel) that mandated reimbursable activities must have taken place in order for chemicals to have been removed from District sites, the District believes the DAR to be an example of the capricious and arbitrary actions of the SCO in reviewing these claims and thus strongly disagrees with the findings of the SCO.

#### **Finding 2: Unsupported Contract Service Costs**

The disallowed costs associated with this DAR are as follows: \$110,710 for FY 1999- 2000 and \$ 93,578 for FY 2001- 2002. Following the SCO's suggestions, the District has recalculated the costs associated with this reimbursement component. The District has recalculated these costs and thus, the District respectfully requests that the SCO evaluate the information provided by the District and consider this information relative to this finding. The support documentation for the recalculated amount will be forwarded to the SCO under a separate cover.

The District is now requiring the contractor to detail the segregation of claimable wastes from non-claimable wastes, resulting in the clear delineation of the charges. The District acknowledges that during the 1999/00 period, the invoices did not clearly reflect the contracted fixed-fee price agreed to by the District and the vendor. Thereafter, the contractor has provided the sufficient detail necessary to reconcile the fixed fee charges to claimable science lab chemicals over other non-claimable waste streams. Thus, the District requests that the SCO revisit the claim in good faith and allow for the appropriate reimbursement as opposed to the disallowance of the entire claim.

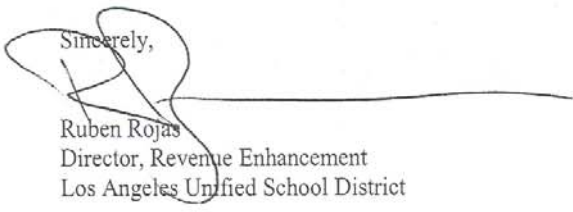
#### **CONCLUSION**

The District believes and asserts that the documentation submitted with the original claims, in addition to any subsequent material provided to the SCO during the audit, establishes the legitimacy of the District's claims. It is also the position that the District has met the requirements as outlined in the State's Parameters and Guidelines.

Unfortunately, the SCO has not set forth sufficient standards or guidelines by which the District may determine the level of support it must demonstrate to establish its claim to the SCO's satisfaction. This flies in the face of the SCOs' past approvals of District reimbursement claims premised on virtually the same quality and quantity of supporting documentation that is now being questioned. It is simply untenable for the SCO to support the complete denial of the District's reimbursement claims with statements regarding the inadequacy of the District's methodology and documentary support, and without the SCO presenting analysis and evidence sufficient to explain the audit determinations.

We appreciate your staff's courtesy and professionalism during the course of this engagement and we are available to meet with staff to convey the aforementioned documentation. Should the request be denied, we reserve the right to file an Incorrect Reduction Claim with the Commission on State Mandates within the statutory allowed time period for the amounts in question.

Sincerely,



Ruben Rojas  
Director, Revenue Enhancement  
Los Angeles Unified School District

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